



## Financial performance analysis of Unilever Nepal limited

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### Abstract

This study aims to identify the financial strengths and weaknesses of Unilever Nepal Limited by properly establishing relationships between the items of the balance sheet and profit and loss account. The study covers the largest manufacturing company of Nepal which was listed on Nepal Stock Exchange Limited. The study has been undertaken for the period of six years from 2014 to 2019 and the data was collected from the secondary sources. In the present study, the researcher has analyzed the financial performance of the Unilever Nepal Limited with the help of the information collected from the annual report of the company. This is a major limitation of the research. The study is of crucial importance to measure the firm's liquidity, solvency, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. The liquidity position and profitability position of the firm was going to weak. Assets utilization position was satisfactory level.

**Keywords:** financial performance, manufacturing company, ratio analysis, performance indicators, public sector

### 1. Introduction

Unilever Nepal Limited (UNL) is a Nepali Anglo-Dutch Indian company which started its journey as Nepal Lever Limited, setting up a factory in Makwanpur district, Nepal with an initial investment of Rs 70.37 million. The factory started with the production of detergents, cleaning powders, toothpaste and toilet soaps. The manufacturing activity of UNL commenced with the commercial production of Wheel washing powder in one kg packaging in February 1994. UNL has established itself as the largest FMCG manufacturer in Nepal. In September 2017, UNL marked 25 years of existence in the country. With over 28 brands spanning eight distinct categories and a strong focus on quality and consumer satisfaction, Unilever is one of the most trusted corporate in Nepal. Unilever Nepal is the market leader across categories for the brands manufactured in Nepal. The market penetration of UNL is signified by the presence of its brands across the country. With a corporate market share of 60 per cent, UNL is the largest producer of consumer goods in Nepal in personal care and home care categories. UNL has also been a witness to the transformation that Nepal has gone through as a country and has been there with the consumers through the thick and thin over these 25 years.

### 2. Literature Review

Financial performance analysis is vital for the triumph of an enterprise. Financial performance analysis is an appraisal of the feasibility, solidity and fertility of a business, sub-business or mission. Yusof *et al.* (2010) [8] did a valuable work to evaluate operation performance of 14 Malaysian public listed companies for the period 2004- 2008 using DEA approach and by drawing the Performance Matrix which is based on the DEA Efficiency and Profitability index (return on assets). Inputs were taken as total expenses (financial and operating expenses) and total assets, and output taken was sales. The study found that the overall efficiency was around 50% and only one company was

consistently efficient in 5 years. Using the Performance Matrix, it was found that only three companies appeared as having highest average ROA among 14 companies and out of this only one company appeared in Quadrant 1 as Super star. However, 3 out of 14 companies were found to have low efficiency and low profitability over 5 years.

Pratheepkanth (2011) [7] evaluated interrelation between capital structure and financial performance by ratio analysis. Marimuthu (2010) [5] evaluated performance of Bumiputra-controlled companies by non-parametric financial ratios using five measures: return on assets (ROA); return on equity (ROE); price per earnings ratio (PE); debt per equity ratio (D/E); and earnings per share (EPS). Moreover, financial ratios have been used as mixed methods, for example, Bayyurt (2008) used financial ratios with DEA and Tran (2008) used it in multidisciplinary approach for performance evaluation of companies.

Altman and Eberhart (1994) [2] reported the use of neural network in identification of distressed business by the Italian central bank. Using over 1,000 sampled firms with 10 financial ratios as independent variables, they found that the classification of neural networks was very close to that achieved by discriminant analysis. They concluded that the neural network is not a clearly dominant mathematical technique compared to traditional statistical techniques. Gepp and Kumar (2008) [4] incorporated the time "bias" factor into the classic business failure prediction model.

Using Altman (1968) and Ohlson's (1980) [6] models to a matched sample of failed and non-failed firms from 1980's, they found that the predictive accuracy of Altman's model declined when applied against the 1980's data. The findings explained the importance of incorporating the time factor in the traditional failure prediction models. Campbell (2008) [3] constructed a multivariate prediction model that estimates the probability of bankruptcy reorganization for closely held firms. Six variables were used in developing the hypotheses and five were significant in distinguishing closely held firms that reorganize from those that liquidate. The five factors

were firm size, asset profitability, the number of secured creditors, the presence of free assets, and the number of under-secured secured creditors. The prediction model correctly classified 78.5% of the sampled firms. This model is used as a decision aid when forming an expert opinion regarding a debtor's likelihood of rehabilitation. In the case of Nepal, this study has incorporated the financial performance analysis of Unilever Nepal Limited which is the largest and biggest manufacturing company. The most recent data are used to analyze the financial health of the company.

### 3. Statement of Problem

Financial performance means firm's overall financial health over a given period of time. Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports.

The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; ensuring enough returns to the shareholders to maintain at least its market value. The ability of an organization to analyze its financial position is essential for improving its competitive position in the marketplace. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department, unit or organizational level. In this context researcher has undertaken an analysis of financial performance of manufacturing company to understand how management of finance plays a crucial role in the growth.

### 4. Objectives of the Study

The main objective of this study is to analyze the overall financial performance of Unilever Nepal Limited. The other specific objectives are as follows:

- To review the liquidity and profitability position
- To evaluate the efficiency of financial operations and
- To assess the short-term and long-term solvency,

### 5. Research Methods

Collection of data from the annual report of the company during the years of 2014 to 2019 and the required and relevant data has been collected from the annual report of the company, literature, and journal and through search engines. In order to analyze financial performance in terms of liquidity, solvency, profitability and financial efficiency ratios have been used. The last 6 years annual report of the company is compiled and tabulated for the purpose of the study.

### 6. Results and Conclusions

Financial analysts assess the firm's liquidity, solvency, efficiency, profitability, operating efficiency and financial stability in both short-term and long-term. Ratio analysis provides relative measures of the company's performance and can indicate clues to the underlying financial position. For measuring financial position and financial efficiency, appropriate level of financial performance indicators are required with whom comparison can be made. Generally liquid ratio, debt-equity ratio, interest coverage ratio, inventory turnover ratio, return on investment ratio and debt

to net worth ratio are highly useful in determining financial position, financial performance and the financial stability or otherwise of such management.

**Table 1:** Firm's Key Ratios

Year	CR	P/E	TAT	EM	NPM	ROA	ROE	DR
2014	1.65	46.75	1.85	156.52	20.85	38.57	555.93	36.11
2015	2.57	16.34	1.74	152.61	21.10	36.68	544.15	34.47
2016	2.59	28.75	1.30	148.68	28.27	36.82	528.11	32.74
2017	2.22	27.86	1.34	160.14	21.73	29.06	448.30	37.55
2018	1.98	22.97	1.52	168.27	20.53	31.20	483.50	40.57
2019	1.84	17.48	1.46	169.60	18.54	27.04	422.25	41.04
Average	2.14	26.69	1.53	159.30	21.84	33.23	497.04	37.08

CR = Current Ratio, P/E = Price to Earnings Ratio, TAT = Total Assets Turnover, EM = Equity Multiplier, NPM = Net Profit Margin, ROA = Return on Assets, ROE = Return on Equity, DR = Debt Ratio.

The above results of the current ratios are decreasing trend below the average standard. In the initial years of the study period, current ratios are in increasing but after the year 2016, this ratio was decreasing gradually. It shows that the liquidity position of this company is going to weak. Similarly, up to the year 2016, the profitability position of the firm is strength because this ratio was above the average but in recent years, it is also decreasing. The firm's assets utilization position is satisfactory level. It indicates that, in recent years, the firm cannot use properly it assets.

The company's operational performance position is good. The company's leverage position is satisfactory. The study was undertaken to analysis the financial performance of the Unilever Nepal Limited. Based on this analysis proper conclusion has been given, regarding the financial position of the company. It can be concluding that overall financial performance efficiency is satisfactory.

### 7. References

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